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ONE QUARTER OF ONE PER CENT

by Frank Chodorov

You are not a banker. Hence, if you happened to see the announcement of the Federal Reserve System, issued on August 18, that it had raised the discount rate from 1-1/2 to 1-3/4 per cent, you probably turned to more pertinent news, like the baseball scores. A quarter of one per cent meant nothing to you.

If, on the other hand, you recalled the article in HUMAN EVENTS (May 24, 1950) entitled Bonds Bursting in Air, the announcement of the Federal Reserve System might have registered. In that article we outlined the difficulties the Government would meet in refinancing its maturing "savings bonds", how it would be compelled to print money to meet these obligations, and how the inflationary trend would be accelerated. The announcement of the quarter of one per cent rise bears out our argument.

Whatever your means of making a living, you cannot escape the impact of inflation. That one quarter of one per cent announcement should therefore engage your attention. It has bearing on your grocery bills, and that is important.

II

"Within the past six weeks", explains the aforesaid announcement, "loans and holdings of corporate and municipal securities have expanded by $1.5 billion at banks in the leading cities alone." That, in the opinion of the Federal Reserve Board, is "clearly excessive".

What does that mean? First, business houses have been increasing their bank loans. Why? Because they have orders for goods, from either the public or the Government, and they need cash, to pay bills, to meet their pay rolls.

Next, businessmen have been using municipal and corporate securities (in addition to their promissory notes or their own bonds) as collateral for such loans. This collateral forms the basis of borrowings from the Federal Reserve System, which must in turn call upon the Treasury for the cash. That is how more money is pumped into the market.

The increase in loans for business reasons is not the only thing that is worrying the FRS. Investors, including institutions, private citizens and even the banks, are buying these municipal and corporate securities rather than putting their funds into Government bonds. Why?

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Simply because the tax-free municipals yield more, and corporate securities, besides paying higher interest rates, appreciate in value while the Governments stay fixed. Capital is naturally attracted by returns.

"Savings bond redemptions", says the Monthly Review published by the Federal Reserve Bank of New York (September), "and savings and time deposits showed net withdrawals for the first time in years." There's the nub of the story. Ordinary, sensible and prudent people -- all good Americans -- are investing their savings where the promise of returns is attractive. It may be a corporate security, a municipal bond or a piece of real estate; not a Government bond. There are plenty of opportunities for these more attractive returns, for, as the Monthly Review puts it, "the expansion of business loans, although under way prior to the start of the Korean War, has accelerated since then."

But, the Government also needs money to refinance its maturing bonds. It is in competition with its suppliers and with all the other producers in the country. Here's a how-de-do! The Government orders tanks; the tank manufacturer needing working capital to fill the order lures the investor into partnership in his now profitable business by offering him a larger return than the Government can offer, thanks to its low-interest policy.

The Government could meet this competition by raising its interest rates. But, the Government is operating under a theory right out of the mouths of college economists. The theory is that interest rates can be held down by legislation; if the interest rates are held down, the cost of financing Government loans will be lower and the entire economy will somehow be held in leash. You need calculus to understand the theory. Investors, who don't understand calculus, but do understand interest, are cashing in their "savings bonds" and investing in corporate securities. They are even withdrawing for this purpose their "savings and time deposits".

III

Now we come to that quarter of one per cent. "To curb inflation", says the announcement, "the Board of Governors of the Federal Reserve System are prepared to use all the means at their disposal to restrain further extension of the credit." So, it is inflation that is bothering the FRS. The Board expects that the increase in the discount rate will discourage borrowing, and thus slow up the Government printing presses. It expects, in the ponderosity of its official statement, "to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market". The phrase

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we have underlined should be paraphrased thus: to prevent the dumping of Government bonds.

Will the higher discount rate prove effective? The Board is a bit dubious. "The Board is also prepared to request the Congress for additional authority should that prove necessary." What, an additional quarter of one per cent? Hardly. We had an inkling of the kind of "authority" the Board will urge in the controls put on instalment buying shortly after the statement appeared. Inflation will be attacked by the curtailment of credit -- as stupid an idea as ever came out of a textbook. (One of the reasons for the large redemption of "savings bonds" -- admitted by the Board -- is the need for more cash to meet the increased down payments under its new ruling.)

Credit is the key to our entire economy. It is the necessary lubricant of our complicated system of specialization and exchange. Without credit, we would be reduced to a primitive, cash-and-carry economy. Imagine running the United States Steel Corporation on that basis. Imagine the difficulties a household would be put to if all charge accounts were stopped. In fact, if credit were stopped, what need would there be for a bank -- or a Federal Reserve System?

Far from being a cause of inflation, credit is actually a preventative. When you buy "on time", or on a charge account, you encourage production, you cause more goods to come into the market. The greater the production the lower the prices. That is the opposite of inflation.

It is true that when you buy "on time" you give a mortgage-note on the unpaid balance; this negotiable instrument becomes an accounts receivable against which the seller may borrow at the bank. More money is needed. But, the regular and orderly amortization of this indebtedness automatically retires the new money. There is no permanent increase in the total amount of money in the market. Credit buying cannot be inflationary.

IV

The Federal Reserve System is plainly up against it. As bankers, they are aware of the evils of inflation. They are trying to curb it by curbing credit, the only instrument they have. However, interference with credit is interference with production, which is not good for the country, including the banking business. Nor is any slowing up of production good for the Government, since it is out of production that all taxes come.

On the other hand, the Government, with which the FRS is closely allied, is doing everything to cause inflation, and the Government is

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sovereign. Thus we have a conflict between the sovereign and one of its quasi-agencies.

Let us face the facts. Nobody, no corporation, no segment of Society can bring on inflation; that is a prerogative of the Government only. Inflation is an increase in the volume of circulating money without an accompanying increase in the amount of goods in the market place. Only the Government can increase the volume of money; only the Government is a waster of goods. If a private citizen prints money he goes to jail; if a private citizen wantonly wastes goods he lands in a lunatic asylum. From these consequences the Government is immune.

Since 1932 the Government has been printing money (including bonds) with abandon. Since 1932 the Government has been siphoning goods out of the market place at a constantly increasing speed.

As for war, or the preparation for it, not even the most ardent militarist will deny that it is wasteful. It is a destructive, not a productive, business. But, during the years of relative peace, since 1932, our Government has gone in for wastefulness on a scale that makes that of war picayune. It should be kept in mind that Government is constitutionally incapable of producing a single economic "good"; it may render "services", but it cannot add anything to the abundance men live by. It is inherently a consumer, not a producer. Therefore, the larger the Government, the more of the national production it takes, and the less there is for the public at large.

To be specific, the more paper the Government uses in its routine work or propaganda literature, the less there is for books and periodicals, things people want and are willing to produce something to get; the book buyer, unlike the Government, replaces the book with a hat or a bushel of wheat. Or again, the bureaucrat does not put back into the market place any thing of comparable value for the food he consumes; what he consumes is a net loss.

All government is by nature economic waste, and the more government the more economic waste. That being so, we have only to look at the ascending curve of the Government's budget since 1932 to see how the market place has been increasingly and constantly impoverished. Along with this impoverishing process, the market place was and is being flooded with money. AND THAT IS INFLATION.

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Not Merely Gossip *A Supplement to* Human Events Vol. VII, No. 41

By Frank C. Hanighen October 11, 1950

MacARTHUR-TRUMAN MEETING: It is not difficult to discern the motives behind Truman's trip to meet General MacArthur in the Pacific next week end. One is obvious: to gain some reflected prestige from the General's present victorious luster and thereby to win votes for the Democratic Party at the coming elections. But will the General also get something out of the conference? That is the big subject of discussion today in Washington.

It should be remembered that MacArthur once before had an important conference with a President in the Pacific. It was in Hawaii, on July 26, 1944, that he went before, and completely dominated, a conference over which presided President Franklin D. Roosevelt. At that meeting MacArthur sold FDR on invading and recapturing the Philippines. Some of those present have described to us how the General emerged the victor from a meeting which, at its outset, was by no means in his favor. When MacArthur arrived, he found that the Navy had partly sold FDR on a plan to by-pass Luzon and attack Formosa (at the time our forces were south of the Philippines, in Hollandia). From Formosa, the Navy would then proceed to the attack on Okinawa and finally on Japan.

With great eloquence, striding up and down before Roosevelt, MacArthur emphasized the strategic danger of the Navy plan which would leave a large body of Japanese troops behind our forces; and of the soundness of taking the Philippines first. But, what was most significant, the Far East commander stressed the political danger of abandoning to the scarcely tender mercies of the Japanese thousands of American captives and internees in the Philippines. The latter point is believed to have swayed Roosevelt (then in a Presidential re-election campaign). The MacArthur plan won and the Navy plan was dropped. Admiral Leahy, attending FDR, was said to have been convinced by MacArthur's arguments.

Will the General give a repeat performance, in the coming week, before President Truman? Those who know MacArthur believe that he will seek to persuade Truman of the necessity of preserving Formosa, and of keeping the Seventh Fleet as a protection for the island. They believe that he will also urge that the Japanese peace treaty be rushed to conclusion; that a real Japanese army be created; and our late enemy's country be made into a "bigger and better" air base.

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MacARTHUR: Around the Pentagon, they are saying that the cleanup of North Korean organized forces above the 38th Parallel should not take too much trouble, nor time. Some military observers wonder if the Americans will completely wipe out the enemy units. They recall how the Japanese, in the Philippines, ignored MacArthur's ultimatum to surrender. Retribution was fierce; when the U.S. forces finished, some 350,000 Japanese dead were counted. Once victory is accomplished in North Korea, it is expected that a polyglot U.N. army will take over. And the U.S. forces will be moved out -- most of them to Europe. Finally, it is believed that MacArthur will be shelved as a commander, as described in our piece last week.

It seems incredible that the outstanding military leader of the U.S. will not be utilized in solving our immense global military and strategic problems. It is a measure of public apathy that the people do not demand the full use of MacArthur's talents. A typical attitude was struck by Marshall last Friday. In this column

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last week we related how MacArthur won by "fattening" our slim lines with Korean soldiers. On Friday, Marshall confirmed this in a statement. But not a word was said about MacArthur.

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ELECTION TALK: Political observers and even staff members of the National Committees of the two parties show great caution in predicting the outcome of the November elections. Generally, the Democrats have recovered their spirits in the past month, but are by no means cocksure. The Republicans, overconfident in weeks which preceded the Inchon landing, now fear that any gains they make will fall short of winning either House of Congress. Personally, we believe the GOP's apprehensions are well founded. At this moment we think it unlikely they will win even one House.

However, observers of both parties are wary about the effect of two factors, whose impact on the voters is very difficult to assess: (1) The rise in prices, if it accelerates greatly in the next few weeks might well cause the voters to mark Republican on their ballot. But no one seems prepared to measure how fast prices will rise before November 7. (2) How keenly will voters feel about the Administration's laxity towards subversives, the McCarthy charges and the retention of Acheson in the Cabinet? No competent observer that we know ventures to say. But it is a fact that mail from constituents to Members of Congress reflects strong feelings on these matters. A friend who has been analyzing House mail tells us that letters expressing indignation at the Administration handling of subversives are very numerous and "extremely torrid".

Another sign -- which makes one wonder. In one section of Georgetown, neighbors assert that police are guarding the homes of Secretary Acheson and a prominent newspaper columnist (who has defended the former), as a result of threatening letters to both men. The letters are of course from cranks, but the police action seems significant.

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MORE DOUBLE TALK ON KOREA: Edna Lonigan comments -- The projected peace settlement is still in a fog. There is more than a faint suggestion that behind the fleecy curtain lurks a plan to abandon Syngman Rhee, as Chiang Kai-shek was abandoned. The new U.N. Commission would hold elections and determine the new government for Korea. With these loose words it would be easy to find that Syngman Rhee was not the "democratically chosen" Chief of State for all Korea.

The inference that Rhee is a "problem" is being suggested in news reports and editorials. The Washington Post admits that Rhee was legally elected, that he has been a force for stability, and that he fought a good war, "in spite of" fiscal difficulties and "inadequacy" on land reform. "On the other hand", they say, "there is the desirability of a clean slate to start out the newly unified country." Then comes the following unsupported charge: "There is undeniably considerable animus against President Rhee." Animus of whom? Of Communist sympathizers? This suspiciously recalls the Lattimore statement that Syngman Rhee was one of the band of "inferior" Chiang Kai-sheks, whom we should drop without letting it appear that we had pushed them.

The charge about "land reforms" is an old Communist gag. It is particularly absurd in Korea where our military government redistributed much of the land, and paid the owners in scrip which could be used to buy into the industrial firms we had taken over from the Japanese. This brilliant stroke created at once a strong peasantry and a new middle class; both anathema to the Communists. But the Acheson supporters talk only of the land "reforms" of the Communists in the North.

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AT LAKE SUCCESS: The Acheson-Truman operation to turn the United Nations from a dream world concept to "a living reality" at the cost of appeasement of Communists wherever found and at the expense of American pride, prestige, decency and money

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continues without abatement. A rapid sequence of events last week showed how this tangled web is woven. On the heels of MacArthur's masterly performance at Inchon, a formal invitation bade the Chinese Communists to send a representative to the U.N. Security Council November 15 for a discussion of Formosa. The maneuver was accomplished by a shabby trick: the United States, along with Nationalist China, voted against the motion, but when the Chinese delegate strove desperately to have his negative qualify as a decisive veto, American delegate Gross made it clear that no such notion would be tolerated. Thus, while the victorious American troops were brought to an abrupt halt at the 38th Parallel and the glow leached out of the victory, and while the Department of Defense published a consolidated casualty list (17,220 Americans killed, wounded and missing up to September 22), a formal recognition of the Chinese Communists before the U.N. was at last accomplished and the surrender begun at Yalta was brought one step nearer to being total.

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ON THE RED FRONT: Simultaneously there occurred the following incidents:

1. Left Wing columnist Johannes Steel reported that Acheson and Trygvie Lie jointly apologized to Vishinsky for Governor Dewey's "behavior" at the New York City sponsored dinner for the U.N. delegates last week. (Acting Mayor Impelliteri, chief magistrate of the municipality which tendered the dinner, refused to collaborate in this prostration before the Russians.)

2. Frederick Vanderbilt Field, who has devoted 20 years of his life to the promotion of Chinese Communism via Amerasia, the Institute of Pacific Relations, and other mediums, blandly ignored the fact that he had been cited by the Senate for contempt and openly registered with the Department of Justice as "Attorney in Fact" for the Bank of China, the China National Aviation Corporation, the Directorate General of Postal Remittances and Savings Bank, all of Peiping, and the China Postal Remittances and Savings Bank of Hong Kong.

3. Senator Knowland (Cal.) discovered that the State Department was circulating among our embassies and diplomatic posts abroad a copy of The Reporter magazine loaded with material favorable to the Chinese Communist regime.

4. Angus Ward, the career diplomat who has spent his professional life as an American representative either in Russia or on the fringes of it, was shunted into the obscurity of East Africa and made Consul General at Nairobi. Until his release a few months ago, Ward had been under arrest in Mukden by Chinese Communists for over a year. If it was impossible for the Department to return him to China, it would be assumed that he would be sent to some post where his experience and his command of languages would be of importance in these critical times. But no! Ward has never been in Africa in his life and, according to an AP dispatch, "was not happy over the new assignment". (Opinion here is that Angus Ward answered questions in public about the Chinese Communists too truthfully to satisfy his State Department superiors.)

5. Representative Clarence Cannon made public a revised anti-subversive bill which he proposes to introduce as soon as Congress reconvenes on November 27. Cannon's bill would, among other things, repeal the McCarran law requirement for registration of Communists and Red-front organizations. Cannon is 71, an old line Missouri Democrat who has been in Congress for almost a generation. That he should be found washing the Administration's Red linen in public is depressing evidence of how far these trends have gone.

Observers here point out that as a result of the foregoing, if Field would clear himself of contempt -- which the Administration would, no doubt, welcome -- and if the Administration-demanded revision of the McCarran law should pass, Field would emerge safe and sound as the truly powerful agent of the Communist China which Acheson is striving to admit to the United Nations.

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Book Events

America's Second Crusade, by William Henry Chamberlin. Chicago: Henry Regnery Company. $3.75. Reviewed by Frank C. Hanighen.

One of my first recollections of William Henry Chamberlin goes back to the spring of 1939 when we were both correspondents in Paris. A group of British and American newspapermen sat around the author of Russia's Iron Age in a Leftbank cafe to hear what he had to say about Moscow's policy. For the Anglo-Polish Pact had just been signed, to "stop Hitler", and the proposed Anglo-Russian alliance was the major subject of discussion. Chamberlin proceeded to warn his listeners that the Anglo-Polish Pact was indeed a dubious venture, and that Stalin was more likely to feather his own nest than to make sacrifices to "stop Hitler" by signing a mutual assistance pact with London. These were not the kind of words the assembled correspondents wanted to hear. But Chamberlin, then as now, did not cater to wishful thinking. I cite this incident so as to emphasize that, unlike the numerous Johnny-come-latelies now fulminating at the Russian dictatorship, the author of America's Second Crusade tried to warn the world when there was time for caution.

In the present volume, the author describes his work as an attempt "to examine without prejudice or favor the question why the peace was lost while the war was being won". Actually, the book's scope contains more than this. Some excellent preliminary chapters describe the "First Crusade" (of 1917-18), the uneasy peace between the two wars, and a mordant picture of the years in this country, 1939-41, when as Claire Boothe Luce put it, Franklin D. Roosevelt "lied us into war". I have seen no fairer or better portrayal of that extraordinary organization, the America First Committee, nor of its battle with its opposite numbers on the interventionist side, the Fight for Freedom and the William Allen White committees.

Examining the statements of the pro-war committees and setting them beside the warnings of the America Firsters, no fair-minded judge can now fail to rule that the latter were right. One America First leader, Senator Taft, said in June, 1941: "Americans don't want to go to war to beat a totalitarian system in Europe if they are to get Socialism here when it is all over." And another leader, Anne Morrow Lindbergh, said: ". . . how can one help but see . . . that there will be no winner in a prostrated Europe unless it is the disruption, mediocrity, and spiritual death which are in Russia today. Who is the potential invader of Europe, the real threat to European civilization? Ask the Balkans and the Baltic states." As for the interventionist Cassandras, later evidence showed that there was never the slightest basis for the scare warnings of William Allen White, et al: that the Germans would hop over from Dakar to Brazil in a massive invasion; or that the German General Staff had full plans for attacking the United States.

Chamberlin is at his best in describing the successive steps by which the victory was undermined by the incredible stupidity of both Roosevelt and Churchill; and by pointing out various stages of the war when a realistic appraisal of Russia might have altered the unhappy outcome of it all. Thus, the author pictures the appalling innocence shown by the Allied leaders in giving to Stalin all that he wished at a time when (in 1941-42) he was obviously in a weak position and ready to make real pledges for a free Eastern Europe and Balkans; and how mythical was the threat -- which scared Roosevelt and Churchill -- that Russia would make a peace deal with Hitler during 1943 and 1944. Hence, the price for such imbecility -- the sell-outs at Teheran, Yalta, Potsdam, and the various other diplomatic meetings.

America's Second Crusade is a precious distillation of many years of shrewd observation and reporting -- easily the best of Chamberlin's books.

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